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Table 1

*Ten major debtor countries**

billions of dollars unless otherwise indicated

	Annual averages			
	1981-1982	1983-1985	1986	1987
Real GDP growth (%)	—0.2	0.6	2.7	2.0
Exports of goods and services	130	123	104	109
Current account balance	—45	—3	—13	—14
*Capital flight***	—26	—11	2	n.a.
Interest-to-export ratio (%)	29	32	32	30
Debt-to-export ratio (%)	246	302	385	385

*Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Nigeria, Peru, Philippines, and Venezuela.
**Minus sign indicates net outflow.

LDC debt realities

The decisions of numerous banks in the United States and elsewhere to boost their loan loss reserves—plus the announcement by some of their intention, one way or another, to dispose of a portion of their existing LDC loans — have precipitated fresh questioning of the LDC debt strategy, in particular, of the Baker initiative. The banks' decisions, taken amid open reappraisals of the debt situation, have launched a new chapter in a long-running saga.

The October 1985 initiative by U.S. Treasury Secretary Baker called on 15 principal middle-income debtor LDCs (the "Baker countries") to undertake growth-oriented structural reforms, to be supported by increased financing from the World Bank and continued modest lending from commercial banks against an industrial-country backdrop of satisfactory economic growth and markets open to LDC exports. The underlying goals were to restore access to international capital markets for these LDCs and buttress their economic growth.

Nearly two years later, achievement stands some way short of these commendable objectives. Most of the Baker countries have lagged in policy delivery and economic performance (see Table 1). They are finding it hard to achieve sustained economic growth (see Table 2), especially in per capita terms. For example, oil-exporting countries were hard hit by last year's fall in oil prices and Brazil's strong growth in 1985-86 has come to a halt. Likewise, the Baker countries scored very substantial current account improvements during the first years of the debt strategy (see Table 3). But for ten of the largest debtors, the combined current account reverted to a deficit of $13 billion in 1986, with a similar outcome likely this year.

Despite an increase in World Bank activity, overall official financing to the Baker countries has dropped off, because of cutbacks by the regional development banks and net repayments to the IMF. Moreover, despite new money packages, claims of BIS-reporting commercial banks on the Baker countries declined nearly $3 billion last year. Worst of all, industrial-country real GDP growth, which has been sagging three years in a row, may be no better than 2.3% in 1987. This sluggish growth, plus the increase in protectionism that is its by-product, makes LDC export expansion difficult. There is little reason for confidence that any of these adverse

Table 2

Real GDP growth

percent

	1983	*1984*	*1985*	*1986*
Argentina	3.3	2.4	—4.5	5.7
Brazil	—2.5	5.7	8.3	8.2
Chile	—0.7	6.3	2.4	5.7
Colombia	1.6	3.4	2.4	5.3
Ecuador	—2.8	4.0	3.8	1.7
Mexico	—5.3	3.7	2.8	—3.8
Nigeria	—8.5	—5.5	2.4	—4.0
Peru	—12.0	4.7	1.6	8.5
Philippines	1.1	—6.8	—3.8	0.1
Venezuela	—5.6	—1.4	0.3	3.0
Total	—3.3	2.1	3.0	2.7

Table 3

Current account balances

billions of dollars

	Annual averages			
	1981-1982	*1984-1985*	*1986*	*1987*
Argentina	—3.5	—1.7	—2.6	—2.8
Brazil	—14.0	—0.1	—4.5	—5.1
Chile	—3.5	—1.7	—1.1	—0.9
Colombia	—2.5	—1.8	0.1	—1.3
Ecuador	—1.1	—0.2	—0.7	—1.1
Mexico	—9.4	2.7	—1.3	1.0
Nigeria	—6.8	0.7	—1.7	—2.2
Peru	—1.7	—0.1	—1.1	—1.2
Philippines	—2.7	—0.6	1.1	0.3
Venezuela	—0.1	4.3	—1.6	—0.3
Total	—45.3	1.5	—13.4	—13.6

trends will soon shift in the debtor countries' favor. It follows that improvement of their export performance, reduction of their very high external debt-to-export ratios, and alleviation of their financial burdens will be a long drawn-out affair.

This recognition has dimmed assessments of the debtors' prospects. Now, following the loss-reserve actions by the banks, the quest to restore the debtors' creditworthiness is entering uncharted waters. Even so, given political will in both the debtor countries and the industrial powers, positive progress still can be made. After all, expert opinion is substantially of one voice on the necessary ingredients. These are those outlined in the Baker initiative. In other words, the logic of the initiative stands intact. It is its implementation that needs improvement.

In a difficult world environment, realism demands that LDC debtors — and, for that matter, the United States in relation to its trade deficit — come to terms with their need to rely more on self-help. The most successful economies, such as Korea, demonstrate the importance of aligning domestic incentives with world market conditions. Like it or not, nations must make their way in an increasingly competitive world economy that puts a premium on self-help and has little time for the inefficiency and pretension of cobwebbed statism as the road to economic success — a recognition dawning in even the most socialist countries of Europe and Asia. Public sectors have to be placed on an efficient, market-responsive footing, frequently best accomplished by privatizing major activities. Private sectors have to be galvanized by deregulation and their capitalization strengthened by equity infusion, including debt-equity swaps that widen private investment opportunities and attract investment from abroad.

The debtors further should make maximum use of the external financial and advisory resources that are most available — from such official institutions as the IMF, the World Bank, and the International Finance Corporation (the IFC, the Bank's affiliate sponsoring private investment). In turn, these official bodies, and their controlling industrial-country governments, should recognize that the roughly 50-50 split between private and official funds typical of many past new money packages for the debtor countries may not be a workable norm for the future, nor is indefinite reliance on "involuntary" lending by banks. Realism demands an increased share of new money be furnished by official sources during the next several years.

In the wake of Brazil's debt-service moratorium, the banks are rightly stepping up the priority some have long attached to strengthening their primary and equity capital, a process that their loss-reserve actions are sure to accelerate. Still, the major banks generally see their interest in staying involved with the major debtors, whatever the future of their involvement with the smaller ones. Living in the marketplace, as they must, banks have to respond to its pressures, not merely fall in with official pleadings for more involuntary money on unappealing terms. It follows that the banks must be permitted a broader range of options from which to choose debtor financing devices that best suit the market imperatives facing banks, both individually and collectively.

Bank lending and capital

Ever since the debt crisis broke in the fall of 1982, banks have been keen to reduce their LDC claims-to-capital ratios. For example, claims of the nine U.S. money center banks

Table 4

U.S. banks' claims-to-capital ratios

	9 money center banks	14 regional banks
*Claims on the 15 Baker-initiative countries ($ billions)**		
End-1982	57.1	16.7
End-1986	56.6	14.1
*Primary capital ($ billions)***		
End-1982	29.0	13.5
End-1986	46.7	22.0
Changes from 1982 to 1986 (average % per annum)		
Claims	—0.2	—4.2
Primary capital	12.6	13.0
Claims-to-capital ratio (%)		
End-1982	197	124
End-1986	121	64
*End-1990 scenarios****		
Unchanged claims	73	41
5% per annum decline in claims	63	33

*Cross-border and foreign office non-local-currency claims on a risk-adjusted basis.
**Stockholders' equity, reserves for loan losses, and certain subordinated debentures.
***Assuming 12% per annum increase in primary capital.

on the Baker countries declined from nearly 200% of their total primary capital at the end of 1982 to just over 120% at the end of 1986 (see Table 4). The level of their claims was virtually unchanged, while the banks' primary capital, consisting of loan loss reserves, equity capital, and certain subordinated debt, increased at an average 12.6% annually. Fourteen U.S. regional banks reduced their claims-to-capital ratio by almost half, from 124% at the end of 1982 to 64% at the end of last year. Not only did the regional banks boost their primary capital more rapidly, but also they reduced their total claims on the Baker countries by an average of 4.2% per annum.*

The recent wave of reserving attests that banks typically view their LDC claims-to-capital ratios as still uncomfortably high in light of current assessments of the debtors' prospects. Banks can reduce their ratios further by increasing their capital and containing or reducing their outstanding loans. Banks boost primary capital by increasing provisions for loan losses out of future retained earnings or increasing stockholders' equity. It should be noted that, by themselves, the recent loss-reserve increases by many U.S. banks did not lift primary capital, except to the extent that related actions reduce tax liabilities. In the main they simply shifted primary capital from one category (shareholders' equity) to another (loan loss reserves). However, this shift could assume greater significance if U.S. regulators join the Bank of England in attaching increased weight to equity (plus unallocated reserves) in determining bank capital adequacy.

Banks lessen the total of LDC loans on their books if they more than offset new loans by reductions in existing loans. In 1986, BIS-reporting banks reduced their exposure to the Baker countries (see Table 5), their new money disbursements of approximately $3 billion being more than offset by repayments of existing loans and decreases in balance-sheet outstandings incident to loan charge-offs and sales and transfers to nonbanks, such as official export credit and other guaranteeing agencies. Much stress currently is being laid on debt-equity swaps as a technique to strengthen bank balance sheets. Of course, equity conversions leave equity interests which, unless disposed of, do not reduce exposure. But if loans or equity are sold, swapped, or charged off, banks do reduce their exposure and thereby their exposure-to-capital ratios. A number of banks therefore plan to step up loan disposals. But any losses incurred use up the banks' loan loss reserves and reduce their primary capital.

A U.S. bank strategy of capital buildup and claims reduction can be exemplified as follows. Suppose that the nine money center banks, maintaining the pace of recent years, add 12% annually to their primary capital in the years ahead. Suppose further that they trim their claims on the Baker countries 5% annually, as the principal regional banks came close to doing over the past four years. Then, by end-1990, the money center banks would see their claims-to-capital ratio down to 63% — roughly today's figure for the regional banks — and, on parallel assumptions, the regional banks'

*Banks headquartered outside the United States generally are thought to have cut their relative exposures substantially, although comparable data are not available to confirm this. Dollar depreciation, by reducing the home-currency values of dollar-denominated loans to LDCs, has contributed significantly to reductions in the relative exposure levels of European and Japanese banks since the end of 1984. For example, although U.K. banks' claims on the Baker countries increased slightly between end-1984 and end-1986 in dollar terms, they declined by more than 20% in sterling terms. Similarly, German banks' claims on the Baker countries dropped by 16% in mark terms (the drop would have been larger were not many of the claims mark-denominated).

Table 5

Commercial banks' claims on the 15 Baker-initiative countries

billions of dollars

	Net lending*			Claims outstanding end-1986
	Annual average 1983-84	1985	1986	
Argentina	0.2	2.2	1.6	33.0
Brazil	4.1	—1.7	—0.0	77.9
Chile	0.6	0.4	—0.7	13.9
Colombia	0.0	—0.7	—0.0	6.8
Ecuador	0.0	0.2	0.1	5.8
Mexico	2.5	0.8	—1.5	77.3
Nigeria	0.3	0.1	0.2	11.0
Peru	—0.5	—0.2	—0.6	6.8
Philippines	0.0	—0.7	0.3	15.4
Venezuela	—1.7	0.4	—1.4	29.3
Subtotal	5.5	0.8	—2.0	277.2
5 other LDCs**	—0.2	0.0	—0.8	24.0
Total for 15	5.3	0.8	—2.8	301.2

*Changes in outstanding claims of BIS-reporting banks adjusted to exclude the estimated effects of exchange rate changes. Data include effects of loan charge-offs, sales, conversions, and transfers to official export credit agencies as insurers or guarantors.
**Bolivia, Ivory Coast, Morocco, Uruguay, and Yugoslavia.

Table 6

External debt-to-export ratios

average gross external debt as percent of exports of goods, services, and private transfers

	1982	1984	1986	1987
Argentina	405	461	536	554
Brazil	339	322	425	471
Chile	333	402	402	370
Colombia	191	254	198	235
Ecuador	239	259	333	464
Mexico	299	292	413	366
Nigeria	84	158	300	310
Peru	269	356	497	551
Philippines	269	309	308	309
Venezuela	84	158	322	278
Total	264	290	385	385

ratio would be down to 33%.

Should today's pessimistic climate persist indefinitely, banks would continue trying to cut their ratios further; of course, this might not be necessary should conditions improve significantly. The precise levels of the ratios that bank managements might judge appropriate undoubtedly would vary from bank to bank, depending not only on evaluations of each debtor's creditworthiness, but also on the country composition of the bank's loan portfolio.

The debtors' export and financial transfer predicament

Particularly disappointing to both debtors and creditors has been the continued deterioration of the external debt-to-export ratios of almost all the problem countries, including Argentina, Brazil, and Mexico. Despite a dramatic slowing of the growth of their debt, the average ratio to exports for the ten principal Baker countries rose from less than 265% in 1982 to 385% in 1986. The average will remain close to that level in 1987, despite improvements in Chile and Venezuela (see Table 6). Similarly, even with declines in applicable interest rates and lending spreads, the average ratio for the ten of scheduled interest payments to exports remained above 30% throughout the 1982-86 period. The average will stand little lower in 1987, although Argentina and Mexico, like Chile and Venezuela, should see reduced interest burdens (see Table 7).

The principal hindrance to broad-ranging improvement in these key ratios has been the succession of setbacks befalling LDCs in their efforts to increase export earnings. Most major debtors have boosted the volume of their exports substantially since 1982. However, terms of trade losses have erased earnings gains in dollar terms (see Table 8), not only for oil exporters but also for Argentina, whose exports are heavily concentrated in beef and cereals. In the case of Brazil, for which terms of trade trends have been less of a problem, the export gains achieved through 1985 have been wiped out by subsequent overexpansion of domestic demand. Thus the debtor countries generally have not achieved the export growth that is ultimately fundamental to solving their external financing problems. Unless they can expand their exports at an average rate exceeding the interest rate on their external debt, their chances of reducing debt-to-export ratios from the current very high levels cannot be rated good.

Unfortunately, world economic conditions are less than propitious for LDC export growth. The debtors need access to expanding markets. But the prospects are unpromising for strong, noninflationary growth in their principal industrial-country markets: instead of averaging 3% or more, their real GDP growth has slowed steadily since 1984, and now seems fated to run no better than 2½% annually for some time to come. Moreover, with its huge trade deficit, the United States is hardly in a position to absorb large increases in LDC exports, as it did in 1983-84, while Japan and Europe are reluctant to stimulate and open their economies sufficiently to absorb substantially more imports from either the United States or the debtor countries. Both structural and cyclical demand trends have depressed prices and volume potential for LDC commodity exports. In manufactures, which hold greater potential for LDCs, Japan and Europe combined absorb fewer LDC exports than does the United States alone, even though their combined GDP exceeds that of the United

Table 7

Interest-to-export ratios

scheduled interest payments as percent of exports of goods, services, and private transfers

	1982	1984	1986	1987
Argentina	50	56	47	43
Brazil	53	38	40	39
Chile	44	44	36	28
Colombia	22	25	16	20
Ecuador	30	30	28	36
Mexico	44	35	35	31
Nigeria	8	11	15	14
Peru	24	32	31	35
Philippines	24	29	23	22
Venezuela	18	18	29	22
Total	35	32	32	30

Table 8

Exports of goods, services, and private transfers

billions of dollars

	Annual average 1981-82	1985	1986	1987
Argentina	10.8	10.3	9.1	9.2
Brazil	25.3	29.5	25.4	24.2
Chile	5.4	4.7	5.3	5.8
Colombia	5.2	5.3	7.2	6.4
Ecuador	2.9	3.3	2.6	2.1
Mexico	29.2	30.1	23.9	28.4
Nigeria	16.3	13.0	7.4	7.7
Peru	4.2	3.8	3.2	3.0
Philippines	8.6	8.1	8.9	9.3
Venezuela	22.3	16.9	10.9	12.4
Total	130.2	125.0	103.9	108.5

States by more than 60%. These difficult foreign market conditions make it doubly important for the debtor countries to diversify their exports and improve their competitiveness. Yet without better economic performance by the leading industrial countries, the process of reducing LDC debt-to-export ratios and restoring creditworthiness is destined to be lengthy.

If strong export growth is beyond reach, debtors can in principle contain their debt ratios by compressing imports sufficiently to generate trade surpluses large enough to effect the requisite net financial transfers to their creditors. During 1983-86, such transfers by the ten major debtors averaged 4% of GDP and about 25% of earnings from goods and services exports.* Yet even this high level of transfers, without export growth, failed to reduce debt ratios; and the debtors paid a heavy price in terms of economic growth forgone. This unhappy experience now has heightened the debtor countries' determination to reduce their net financial transfers — by reducing interest payments and increasing net capital inflows — to levels consistent with desired economic growth.

Two dead ends and their cooperative implication

One approach to limiting financial transfers is seen in Peru's unilaterally decreed limit on debt-service payments, in effect since 1985. Emphatically, this is not the right approach. Peru's debt-service limit has ensured practically no new money inflows from banks. Although it pumped up growth to 8% last year, this can hardly be sustained on the basis of a consumption boom fueled by heavy deficit spending, rapid credit expansion, and large real wage increases. Inflation has climbed above 100%. Surging imports have drained the nation's foreign exchange resources. Virtually cut off from credit, some of its external trade now is conducted by barter. Further, Peru has experienced foreign direct investment withdrawals and increased capital flight.

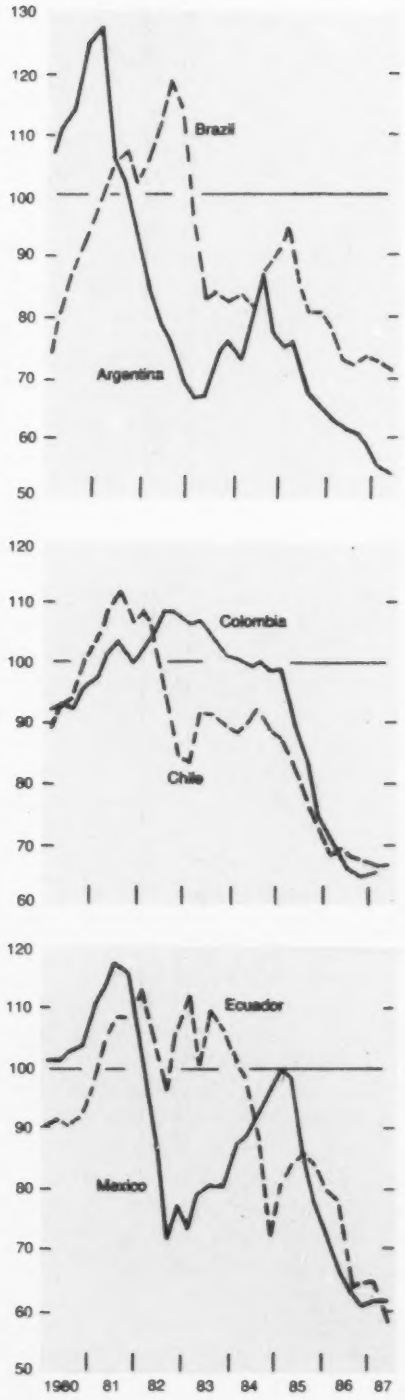
Debt relief likewise is not a sensible way to alleviate burdensome financial transfers. Granted, some of the very poor developing countries, mostly in Africa, for whom private credit markets were never a major source of finance, may merit debt relief and certainly deserve financial support from IDA, the World Bank affiliate for concessional lending. By contrast, the middle-income debtor countries addressed by the Baker initiative are neither very poor nor insolvent. They possess considerable human and natural resources, reasonably well-developed infrastructures and productive capacities, and the potential for substantial growth in output and exports, given sound economic policies and a benign external environment. In addition, some of these countries have considerable wealth — much of it, regrettably, invested abroad. Most of the Baker countries have yet to make sufficient effort to mobilize their own resources and allocate them efficiently. For them, debt relief is at best a shortsighted and ineffectual substitute for sound macroeconomic policy and vigorous structural reform; relief or forgiveness would only weaken discipline over economic policy and under-

*Net financial transfers can be broadly measured as net interest and dividend payments less net capital inflows (the counterpart of the current account deficit). The transfers receded to 2.3% of GDP on average in 1986, partly for what may prove ephemeral reasons. The decrease occurred despite reduced net lending to the ten by foreign creditors, both official and private, instead coming mainly from lower interest payments (reflecting interest rate declines) and drawdown of the debtors' foreign assets, in place of sizable accumulations in the previous two years. The asset drawdown last year included both reductions in official reserves and modest reflows of flight capital. But reserves are exhaustible and it can hardly be said that the flight capital problem has been solved.

Chart 1

Real effective exchange rates

quarterly averages
index, 1980-82 = 100



mine support for structural reform.

Besides, it is questionable whether debt forgiveness would significantly diminish net financial transfers by the Baker countries. Most of their term debt, especially the portion owed to banks, has been restructured with extended grace periods and lengthy maturities. Thus, for many years to come the cash flow benefits of principal forgiveness would be limited to the interest savings on the forgiven amount. Moreover, debt forgiveness involving principal or interest would certainly cause banks and others to cease lending and investing, and also provoke outflows of resident capital. The loss of new loans and investments for an indefinite period, plus capital flight, could substantially reduce, if not entirely wipe out, any near-term cash flow gains from debt relief. Besides, for the Baker countries, debt forgiveness would run directly counter to the objective of restoring access to credit markets.

The wise course for the future requires careful reading of the lessons from past mistakes. Even before its elaboration as the Baker initiative, the debt strategy hinged on a combination of steadfast policy improvement on the part of the debtors plus cooperation among the debtors and their creditors, including the industrial-country governments that have principal responsibility for assuring world economic growth. Reform and cooperation remain the right approach.

Debtor policy reforms

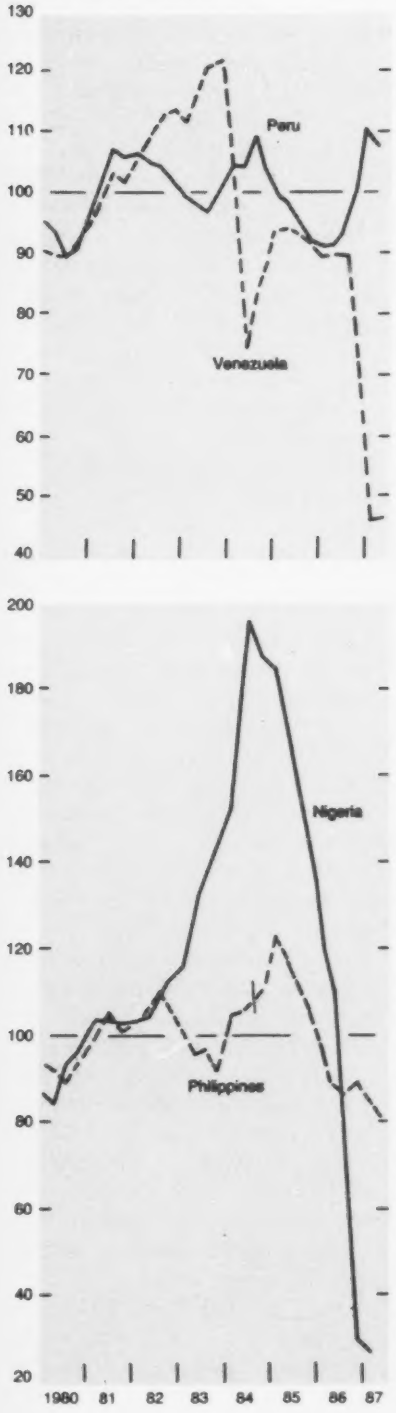
Market-oriented reform of troubled debtors' policies lies at the heart of any credible undertaking to secure their economic and financial rehabilitation. Chile and Colombia have embarked on fairly comprehensive reform programs and, despite natural-disaster and painful terms of trade loss, Mexico has made surprisingly good headway. Argentina has just announced a series of steps intended to improve public-sector management. Yet, in the best of circumstances, structural reform meets formidable political obstacles: labor unions facing job and benefit losses, bureaucrats fearful of diminished power and influence, and local industrialists concerned about increased competition and reduced profitability. All are well aware that the potential benefits of structural reform often are diffuse and materialize only gradually, even beyond the horizon of political leaders.

Progress has been most pronounced in exchange and interest rate policies. In real effective terms, exchange rates of the debtors' currencies are far more competitive than at the onset of the debt crisis (see Chart 1). This has encouraged nontraditional-export development. For example, Mexico's non-oil exports are rising very strongly for the second year in a row and now exceed oil exports by a considerable margin. Strong export performance, aided certainly by firming oil prices, has returned the current account to surplus. In addition, Mexico's more realistic interest rates, its stringent rationing of private-sector credit, and the generally positive thrust of its economic policies — which have inspired a stock-market boom — have induced appreciable reflows of flight capital. Such reflows, plus the current account surplus and disbursements from the new money package, have helped boost Mexico's foreign exchange reserves to some $13 billion, an increase of $7 billion so far this year.

Mexico further has introduced several tax reform measures, has begun to improve the efficiency of various public-sector enterprises, and is administering foreign invest-

Real effective exchange rates

quarterly averages
index, 1980-82 = 100



ment regulations more flexibly, particularly for export-oriented ventures. It has launched a debt-equity conversion program that so far has generated nearly $900 million in swaps and helped double private direct investment inflows last year. Further, Mexico is making unexpectedly good headway in trade liberalization, reducing tariff and nontariff import barriers, and improving domestic producers' access to internationally priced inputs.*

The question overhanging the prospects for sustained structural progress in Mexico concerns its stance on demand management. Without competent and consistent demand management, structural reforms stand little chance of taking root and flourishing. An inflation rate of 125% during the latest twelve months highlights Mexico's problem. The problem is yet more graphic in Brazil, where the renewed outbreak of hyperinflation following its demand management debacle effectively forecloses formulation and implementation of constructive structural reforms for the time being.

Not least because of its relatively successful recent record in demand management, Chile evidences the strongest commitment among the major debtors to thoroughgoing structural reforms. Correctly, these aim to expand the scope for private-sector activity and reduce the role of the public sector in the economy, with deregulation, privatization, financial market reform, and already-liberal foreign investment rules as the key instruments of change. Chile has undertaken to revitalize many financial institutions and foster development of an active capital market; privatize a number of major state enterprises considered off-limits elsewhere, such as steel, electricity generation, and telecommunications, in addition to numerous smaller entities; rationalize other public-sector companies; and encourage foreign direct investment, partly through its near-exemplary debt-equity swap scheme (see next article).

Unlike Chile, most of the debtor countries have failed to join the worldwide trend — most conspicuous in Western Europe — toward reducing the economic role of the state and expanding the scope for private enterprise.** To date, privatization in the debtors has consisted mostly of attempts to sell off assorted small commercial firms, often formerly private-sector firms absorbed by the state to avoid layoffs after bankruptcy. Except in Chile, privatizations of major state enterprises have been rare. Of course, substantial preparatory work is necessary before state enterprises can be privatized, especially those with a history of mismanagement and lack of financial discipline. If privatization benefits are to be reaped within the foreseeable future, it is important that preparation be put under way with minimum delay.

Financial market reform also has lagged in the major debtor countries. Development of viable bond and equity markets is inhibited by the overwhelming claims of the public sector on financial savings and by the lack of adequate accounting standards, financial disclosure, and credible regulatory frameworks. Typically, financial markets still are fragmented by interest rate controls, steep reserve requirements, admin-

*To these ends, the World Bank is extending financial and technical assistance to Mexico, and also to Argentina, Colombia, and Nigeria among the major debtors. The World Bank further is supporting policy reforms aimed at boosting agricultural production and efficiency in Argentina, Ecuador, and the Philippines — countries whose agricultural export potential has long been undermined by government price regulations, export restrictions and taxes, and monopolistic trading arrangements; these now are being dismantled.

**In the typical debtor country, the public sector holds sway over the economy by regulating prices and marketing practices generally and, in many sectors, operating large state enterprises that are sheltered from market discipline and often require budgetary support and preferential access to credit.

Table 9

*Capital flight**

billions of dollars
minus sign indicates net outflow

	1983	1984	1985	1986
Argentina	—0.4	1.1	0.4	0.7
Brazil	—2.2	—3.1	—1.6	—1.0
Chile	0.2	0.3	0.6	0.8
Colombia	—0.5	0.7	—0.8	0.0
Ecuador	—0.7	—0.1	—0.3	—0.2
Mexico	—8.5	—3.9	—2.4	0.9
Nigeria	—2.3	—1.0	—1.2	1.3
Peru	—0.6	—0.7	—0.1	0.4
Philippines	0.0	0.2	—0.4	—1.7
Venezuela	—3.8	—1.7	0.4	0.5
Total	—18.9	—8.3	—5.4	1.7

*Net flows excluding reinvestment of earnings on private-sector residents' overseas assets. Estimates are developed indirectly, see *World Financial Markets*, March 1986. Figures shown above embody additional adjustments to exclude valuation effects of exchange rate changes on debt and asset stocks.

istrative credit allocation, and preferential arrangements for favored sectors such as housing and agriculture. These practices, as do those of the socialist financial systems of Eastern Europe, stifle market forces in resource allocation.

Furthermore, for all but a few of the major debtor LDCs the combination of recently unfavorable economic conditions and a tradition of inhospitable regulation has thinned the ranks of potential foreign investors. In the last few years, net foreign direct investment inflows into the ten major debtors have averaged only about half the scale seen in the late 1970s and early 1980s. Rules on foreign ownership limits and dividend remittances have been eased and administrative procedures simplified in Colombia, Mexico, and Venezuela as well as some of the smaller debtors. Yet the general perception is of only modest liberalization, and regulatory practice still is judged arbitrary by many potential investors.

Moreover, few of the debtors have seen much reflow of flight capital (see Table 9). Where reflows have occurred, as in Mexico this year, they have been modest when measured against the large-scale outflows of the past — especially when it is borne in mind that the foreign assets so acquired are likely to have risen greatly in value through earnings reinvestment and capital appreciation. Evidently, much more must be done by the major debtors generally to create the environment and build the private-sector confidence that will attract larger inflows of foreign investment and encourage return of significant amounts of residents' capital held abroad.

Official financing

On the creditor side, given the market constraints on banks, governments and international institutions will have to meet a large share of the new money needs of the highly indebted LDCs in the years ahead. In 1986, net lending to the Baker countries by government creditors was virtually unchanged from the low level of 1985 (see Table 10), and that by the international organizations dropped to $4½ billion — far short of the $6½-$7 billion annual average envisaged in the Baker initiative. Clearly, the practice will have to change whereby, hitherto, officials generally have provided no more than half the gross new money needs of the debtor countries, including amounts to repay the IMF and multilateral development banks.

It is not easy to reconcile the IMF's negative financing role with the supposedly central role it is called upon to play in the management of debt problems. Without shifts in Fund policy and debtor attitudes toward Fund conditionality, the IMF will receive large net repayments in 1987-88 from the Baker countries, including $2.1 billion from Brazil alone. Yet the Fund's already-ample resources now are being topped up by Japan which, much as did Saudi Arabia in earlier years, is moving to lend the Fund some of the assets accumulated through its current account surplus. Provided debtor countries pursue sound policies, it makes little sense that the Fund routinely curtails the size of programs for countries that are large current users of its credit, even when they have sizable unused borrowing rights and external financing needs. Moreover, if a country's borrowing rights are exhausted yet its financing needs legitimate, the Fund should consider raising its now two-year-old access limits.

The Fund has been reassessing its policy advice and programs in response to allegations of its inattention to debtor growth needs. Sev-

Table 10

Official net lending to the 15 Baker-initiative countries

billions of dollars

	Annual average 1983-84	1985	1986
Argentina	1.2	1.2	0.7
Brazil	4.3	1.2	—0.1
Chile	0.6	0.4	0.1
Colombia	0.6	0.9	0.7
Ecuador	0.5	0.4	0.4
Mexico	1.3	1.5	2.3
Nigeria	1.4	0.6	1.8
Peru	0.7	0.3	0.3
Philippines	1.0	0.9	0.6
Venezuela	—0.3	—0.4	—0.2
Subtotal	11.2	6.8	6.6
*5 other LDCs**	2.6	0.6	—0.1
Total for 15	13.8	7.4	6.5
Of which			
IMF	4.8	1.7	—0.1
Multilateral development banks	3.8	3.6	4.4
World Bank	2.1	2.4	3.4
Others	1.1	1.3	1.0
Bilateral government	5.2	2.1	2.1

*Bolivia, Ivory Coast, Morocco, Uruguay, and Yugoslavia.

eral recent programs include growth as a specific objective or provide for review of policy targets in light of economic trends. The Fund, working with the World Bank more closely than in the past, is putting increased stress on structural reforms. IMF advice may be particularly useful respecting the much-needed liberalization of the debtors' domestic financial markets. Prompt progress in implementing structural reforms now is accepted by the Fund as justifying flexibility in other aspects of its programs. It is crucial, however, that IMF/World Bank conditionality not be diluted, lest it become even more difficult to mobilize private investment.

Although the World Bank increased its net disbursements to the Baker countries by more than $1 billion last year, it should relax arbitrary limits and heighten its newly established emphasis on quick-disbursing, policy-based loans. Moreover, the Bank should give greater attention to improving the climate for private-sector investment, both domestic and foreign, in the debtor countries. The IFC affiliate of the Bank should be fully involved in this, especially in expanding the opportunities for equity investment. For example, the IFC should step up its already-fruitful efforts to establish equity investment funds for individual debtor countries; these funds could be used by smaller banks and other investors as vehicles for debt-equity swaps. The Bank also could catalyze greater lending by commercial banks and others through expanded cofinancings, including those carrying its partial guarantee. In addition, either the Bank or the Fund could assist debtors in managing interest rate and currency risks, for example by encouraging appropriate hedging through interest rate swap or cap agreements with the debtors.

In the not-too-distant future the World Bank will need additional capital. Dollar depreciation has crimped the Bank's lending capacity. With a larger portion of its assets denominated in nondollar currencies than its capital, the dollar value of the Bank's assets has risen relative to its capital, reducing its capital adequacy. Early agreement on a sizable capital increase therefore should be part of the mandate for a larger role for the Bank in dealing with debt problems.*

The capabilities of the official export credit agencies in the major industrial countries also have to be mobilized fully, to reverse the sharp falloff in their net lending to the debtor countries during recent years. Encouragement can be taken from the recent announcement of Japan's intent to increase lending to the major debtors by the Japanese Export-Import Bank. The Bank is to make up to $3 billion in untied loans to these countries over the next three years and is to participate, via cofinancing with Japan's Overseas Economic Cooperation Fund and Japanese commercial banks, in another $9 billion in new credits. Another welcome development is the proposal by the head of the U.S. Export-Import Bank that official agencies should extend longer-term, fixed-rate export financing to heavily indebted countries undertaking structural adjustment programs. Besides capital goods, the agencies could widen the range of exports they finance to include essential raw materials, parts, and related local-currency costs.

Regrettably, many agencies continue to restrict export cover for countries rescheduling debts via the

*Japan has indicated its readiness to participate in future World Bank capital increases and IDA replenishments, and will permit increased World Bank borrowing in the Tokyo capital market. In addition, the government has agreed to provide Y30 billion ($200 million) in grants for technical assistance and interest rate subsidies on projects qualifying for World Bank loans.

Paris Club. Although some agencies now restore cover quickly once a rescheduling agreement is reached, there remains much room for improvement. The Club also should agree to more comprehensive debt restructurings, whose scope hitherto has been limited compared with those agreed to by banks. These official agencies were established to promote trade by sharing risks that traders and private lenders could not assume. It is time that they live up to their mission.

The banks' cafeteria

Despite their concern to reduce exposure to the heavily indebted LDCs, the banks are not altogether unwilling to lend when warranted. However, having restructured at long term the obligations of all the larger problem debtors, except Brazil, the banks are increasingly concerned by the role they have been required to play as "residual" lender, financing the gap that remains after official creditors have decided what they are prepared to lend. And, as commercial institutions, banks have varying interests in providing new money and managing their existing exposures. Working with the debtors and other creditors, banks therefore are keen to streamline procedures and develop some options to enhance the attractiveness of lending and investing.

Streamlining the new money process would be aided by reducing the number of banks involved.* Relatively minor shares of total bank exposure to most debtor countries are held by a fairly large number of banks. Many of these banks are small in size, have no business reason for continued lending to these countries, and balk at committing new money. Banks could be given the option of exchanging some amount of their existing exposure for a special exit instrument that would release holders from new money obligations. Such an option was included in the recent Argentine financing package but found no takers because the terms of the exit instrument — 4% fixed-rate, 25-year bonds — were inferior to those prevailing in the market. Incentive fees are another means to accelerate completion of new money arrangements, proving highly effective just recently in the case of Argentina.

Most past lending to what are now the problem debtor LDCs took the form of illiquid syndicated credits. Today, banks would prefer a portion of their new credits to take the form of marketable instruments, such as bearer bonds or floating rate notes. Though the market may price them at a discount, they can provide banks with assets more liquid than a traditional loan and offering more flexibility in exposure management. Marketable instruments also can be devised with features enhancing their attractiveness to potential investors.

Although they recognize that the scale of the debtors' new money needs requires that general-purpose lending should continue, commercial banks prefer that new money, to the extent possible, be keyed to specific uses. Most attractive to banks are expanded opportunities for cofinancing with the World Bank,

*As an alternative to tortuous and unending negotiations, some banks favor a more automatic approach. Formal capitalization of interest on existing loans might substitute for new lending, on the argument that the effects on debtor-country cash flows and debt levels are identical. Permanent forgiveness of interest on existing loans under certain conditions also might replace new lending; for example, a bank might agree to zero interest on its existing exposure until the receipts forgone were equivalent to the amount of its new money obligation. Besides raising difficult regulatory and accounting problems for banks headquartered in the United States and certain other countries, the fundamental objection to interest capitalization or forgiveness is the risk that a one-time, limited exercise at the option of some lenders could open the door to more generalized capitalization or forgiveness, even to capitalization at the discretion of borrowers. This would seriously undermine discipline among both creditors and debtors and delay the debtors' return to markets.

particularly those incorporating partial guarantees. Cofinancing helps assure that loans are used for the intended purposes, with the World Bank monitoring borrower performance. Risk-spreading through partial guarantees, cross-default provisions, and arrangements for sharing payments could increase the funds that banks are prepared to commit. Expanded opportunities under officially supported export credit guarantee and insurance programs likewise could increase bank lending.

Financing options with value-added potential also are attractive. New money in the form of additional trade credit, for example, enables banks to serve their clients involved in trade with the debtor countries and, in general, to promote more open economies. Trade finance further is appealing because most countries give priority to prompt servicing of their trade-related debt. New money for project finance similarly enables banks to serve clients participating in the projects concerned; banks find comfort in financing productive investment that increases the country's capacity to earn foreign exchange. New money in the form of equity investment is attractive to a number of banks, sometimes to boost the capital of their existing local affiliates or to establish or acquire new ones. Finally, rather than lend merely to the government, banks want the option to onlend part of their new money to borrowers of their choice. Onlending, akin to the relending option banks have sought for restructured debt, provides banks opportunities to serve existing clients in the country, including affiliates of multinationals, and to develop new business.

Insofar as the banks' desired options would allow new money to be directed to the private sectors of the debtor countries, the possible implications for the balance of payments, government finance, and domestic monetary conditions are legitimate concerns and will need to be worked out carefully. Still, the options make sense for the banks, and should do so for the debtors also, since acceptance would assist the recovery of confidence in these countries.

Of course, it should not be imagined that prompt access to a wide range of options will inspire some great and instant flood of new bank money for the debtor countries. For some time to come, new bank money will be forthcoming only on a modest scale, reflecting not only the banks' determination to strengthen their balance sheets but also the performance shortcomings of the debtor countries — Brazil's demand management problems may be the leading current example of these but they also include the limited progress of most debtors in implementing structural reforms.

It is vital that the banks work with the IMF and the World Bank in encouraging policy improvement in the debtor countries. In fact, the importance cannot be overestimated of involving the banks early in consultations with the official institutions and the debtors in the design of new money packages. If market access is to be restored to these countries, potential private investors, including banks, are best equipped to offer advice on the performance conditions the markets require and the feasible forms and magnitude of market finance. Once confidence begins to recover, and the debtors elicit reflow of flight capital and see their official reserves build up, it would be a shrewd move, both materially and psychologically, for the debtors to buy back some of their outstanding debt to banks. It would be received as a constructive step toward the normalization of the debtors' access to credit markets.

Table 11

Debt-equity swap programs of selected debtor countries

	Debt conversion through mid-1987		External debt to banks, end-1986
	$ billions	% of end-1986 bank debt	$ billions
Active programs			
Chile	1.9	13.6	13.9
Mexico	0.9	1.1	77.3
Philippines	0.1	0.5	15.4
Ecuador	0.1	1.1	5.8
Costa Rica	0.0	2.8	1.4
*Announced but not yet active**			
Argentina	0.5	1.5	33.0
Venezuela	—	—	29.3
*Under negotiation***			
*Brazil**	2.5	3.2	77.9
Bolivia	—	—	1.7
Jamaica	—	—	0.6
Nigeria	—	—	11.0
Total for 11 countries	5.9	2.2	267.3

*Conversions shown were under discontinued programs.
Argentina's program will take effect once its recent agreement with banks is signed; Venezuela's took effect in April 1987.
**Bolivian swaps could be limited by a possible government repurchase of debt to banks; Jamaica plans to limit conversions to government debt covered by this year's restructuring; Nigeria's conversions are to be limited to suppliers' credits in arrears for which the central bank has issued promissory notes.

Debt-equity swaps

Eleven principal LDC debtors have established, or currently are considering, some form of debt-equity conversion scheme. Relative to the $267 billion total of debts that these countries owe foreign banks, conversions to date have been modest — barely $6 billion, or 2.2% of their bank debt, including those under old, discontinued programs in Argentina and Brazil (see Table 11). Of the total converted, Chile alone accounts for over one-fifth. Indeed, Chile has converted approximately 14% of its debt to foreign banks to equity or local-currency debt in only two years.

The potential for debt-equity swaps depends on the supply of discountable debt and the demand for this type of investment. Recent decisions by banks to increase loan loss reserves and dispose of some existing LDC loans suggest that the supply of paper available for conversion could grow substantially. However, the demand for conversion is apt to be limited by the availability of suitable commercial activities or new projects. That availability is a function of the investment climate in the debtor countries and is subject to the reservations held by some of their policymakers.

According to proponents, debt-equity swaps can accelerate and increase foreign investment in these countries, with the accompanying benefit to them of access to foreign management skills, technology, and export markets. If open to participation by residents, swaps can mobilize for domestic investment their assets now held abroad, helping reverse the massive capital outflows of the 1970s and first half of the 1980s that bred large increases in debt. Swap critics — numerous in the debtor-country governments and also found in academia and segments of officialdom in industrial countries* — focus on the issues raised by swaps for monetary and fiscal control, resource allocation, external financing, and question whether swaps carry "additionality," that is, whether the additional investment yielded by conversion programs justifies the costs and benefits the debtors' foreign exchange cash flows.

Debt-equity swaps can make a useful contribution to the management of debt problems. Conducted on a major scale, as Chile is doing, swaps can even make substantial inroads on debt burdens. For most debtors, however, it is probably more realistic to expect that swaps will help contain the growth of total debt, not reduce the level significantly, except perhaps the component owed to banks — an important consideration for banks that are under pressure to curtail their exposure and involuntary lending to these countries.

The more valuable contributions that swaps can make to the debtor countries lie in raising investment rates, improving the allocation of resources, recapitalizing private sectors, and providing new inputs of modern technology. Reform programs in the debtor countries have precisely these objectives but, even when implemented, ordinarily may take considerable time to change the perceptions and expectations of investors. Properly structured conversion programs can speed up that change through the financial incentive provided by the discount on the converted debt.

These are the criteria by which Chile's program truly is successful. Its unrestrictive and straightforward mechanics have complemented expanding opportunities for private-sector investment, thanks to deregu-

*For example, in Brazil some members of the Constituent Assembly have voiced opposition. And, just recently, the Group of Thirty published a study that, on balance, is critical.

Table 12

Realized returns on selected LDC money market instruments*

percent per annum

	Local-currency terms		Dollar terms**	
	Jan 1986-Mar 1987	Apr 1987-Jun 1987	Jan 1986-Mar 1987	Apr 1987-Jun 1987
Argentina	100	138	23	12
Brazil	273	853	19	—56
Chile	20	29	8	2
Mexico	133	148	0	80
Philippines	15	9	13	9
Dollar LIBOR			7	7

*Argentina: 30-day time deposits; Brazil: 90-day Treasury bills; Chile: 60-day promissory notes; Mexico: 90-day time deposits; Philippines: 90-day promissory notes; Dollar LIBOR: 6-month deposits.

**Periods of rapid or catch-up devaluations of local currencies depress returns in dollar terms.

lation, privatization, a relatively well-developed domestic capital market, and liberal foreign investment regulations. A key lesson of Chile's experience is the importance of broad-ranging policy reform in opening investment opportunities in the domestic private sector for residents' and foreign capital alike, plus careful management of the monetary and fiscal consequences of swaps.

Probably the most frequent criticisms of debt-equity swaps allege monetary and fiscal consequences inimical to domestic stabilization. The local currency required for the repurchase of external debt usually has to be provided by the monetary authority or the government of the debtor country, through either money creation or the issuance of domestic public debt. Excessive money growth or upward pressure on interest rates then can result. Moreover, the public-sector deficit may increase if, as Table 12 suggests, the cost to the government of borrowing local currency is higher amid prevailing austerity efforts than the local-currency equivalent of the ongoing cost of servicing the foreign-currency debt to be redeemed.

The force of these criticisms depends on the levels of domestic financial market development and fiscal imbalance. Financial markets that are broad and deep are better able to absorb the liquidity creation incident to debt-equity swaps than are the narrow and shallow markets of most debtor countries. Typically, their public sectors further have been heavy external borrowers and much of their private-sector debt has been effectively nationalized.

In these circumstances, monetary policy tends to be driven by fiscal dictates and may have a hard time coping with large-scale debt-equity conversions. Actually, even at their most severe, the monetary effects of swaps are no different than those caused by foreign investment inflows in cash, which most debtor governments presumably would welcome. In either case, excessive monetary expansion need not result if the central bank has the latitude to limit other liquidity creation appropriately, possesses adequate instruments to do so, and is willing to use them. Still, in practice, the scope and features of all debt-equity programs limit their monetary impact and take account of domestic financial market development. Programs may set quotas per time period (sometimes auctioned); require deposits to be frozen for a time, subject to release on some specified schedule (perhaps in line with a project's liquidity needs); or restrict conversions to certain activities or classes of eligible debt. Even Chile's exceptionally liberal scheme auctions conversion rights.

Some policymakers and critics of debt-equity swaps approach the question of resource allocation with an unabashedly political perspective, betraying a strong bias favoring national versus foreign, and public versus private, control. They prefer to restrict swaps, if any, to approved areas that do not threaten national or public-sector control. The economic content of their criticism is twofold: first, that retirement of public-sector external debt may not be a high-priority use for scarce public resources; and, second, that the preferential exchange rate said to be implicit in swap transactions amounts to a subsidy sending wrong signals to investors and distorting resource allocation.

The first point obviously does not refute the value of private-sector debt conversions. At the same time it overlooks the need for increased effectiveness of public-sector spending and management generally, a goal that equity infusion can advance. The second point is highly disingenuous given the glaring economic distortions induced in the

debtor countries by the plethora of other subsidies and interventions that enjoy official favor yet leave the private sector undercapitalized. These countries are not, after all, textbook market economies. To say the least, it is a mite purist to adduce arguments against debt-equity conversion on efficiency grounds. Indeed, were the debtor countries willing to allow the markets freely to balance supply and demand for foreign exchange, their debt-servicing capacity would improve, discounts on their debt would narrow, and the arbitrage incentive for debt conversion and "round-tripping" to exploit the discounts would shrink, or even disappear.

Investment additionality and the external financing ramifications of debt-equity swaps are further policymaker concerns. Additionality cannot be quantified exactly. At stake are not only the investment decision itself but also its size and timing. Market commentary suggests that the financial incentive provided by a swap program can accelerate the timing and increase the amount of an investment. Whether financial incentives are the determining factors for investment depends on the specific case. Sometimes the debtors must reconcile themselves to offering competitive incentives if they are to attract investment at all. Thus in the automobile and other relatively high-technology industries with transnational production systems, investment location is strongly influenced by financial incentives.

Of course, swaps can allow those foreign investors who already are inclined to invest to finance their projects without bringing in cash. Equally, swaps may subsidize reflows of residents' capital that would have occurred anyway, implying unnecessary costs and denying the use of cash foreign exchange inflows for purposes other than debt reduction. To obviate loss, Argentina requires that debt-equity swaps be matched by equivalent new cash investment — a requirement that slashes the effective incentive provided by the swap mechanism and largely defeats its purpose. Besides, since neither foreigners nor residents nowadays are investing heavily in the debtor countries, the size of the possible loss of cash inflows can hardly be great.

On the whole, it is reasonable to presume that the incentive provided by a well-designed conversion program does deliver additionality, because it helps cover the higher risk premiums that investors sensibly require in the uncertain investment climates of most debtor countries. This appears to have been the case in Mexico, where direct private investment in 1986, as recorded in the balance of payments, reached twice the average of the previous three years.

All in all, debt-equity swaps offer an effective, market-based mechanism for channeling resources to the private sector. Debtors that foster a smoothly functioning swap mechanism symbolize their constructive endeavor to rein back government in favor of a dynamic, growth-oriented private sector. Besides, if the recent debt negotiation with Argentina and the opening soundings in the Brazilian case are any indication, banks may be increasingly insistent that the new money they provide to the debtor countries be conditioned on a policy package that encourages debt-equity conversion. In the banks' view, an active swap scheme builds investor confidence, constituting one of the best ways to promote repatriation of assets held abroad and strengthen the equity base of domestic private sectors. Thus swaps have a vital role to play not only in improving the efficiency of the debtors' domestic investment efforts but also in normalizing their finances.

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Effective exchange rates — industrial countries

Index numbers, 1980-82 average=100.

		United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
Nominal against 15 other industrial-country currencies																	
1981		99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982		109.8	99.4	98.6	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1983		114.2	100.8	107.8	92.0	87.3	107.6	90.3	91.6	103.6	90.0	105.0	78.4	111.5	96.4	99.4	82.2
1984		122.4	97.3	113.0	94.2	84.4	107.4	86.7	88.1	103.6	88.9	104.0	77.4	110.5	93.9	97.8	84.3
1985		127.1	92.8	115.8	76.3	85.4	107.8	82.1	88.2	104.2	89.5	104.0	75.6	109.5	95.0	95.6	83.9
1986		106.0	87.6	150.1	61.4	87.4	116.1	82.9	80.7	107.8	92.9	110.3	73.4	118.1	99.7	89.3	81.6
1987																	
January		98.5	88.1	156.1	57.2	87.4	122.2	84.0	74.8	110.4	95.9	114.9	71.9	121.7	103.9	83.8	79.9
February		96.9	89.7	156.4	57.2	87.9	122.7	83.9	74.8	110.7	96.4	115.0	71.3	121.4	104.6	84.4	80.0
March		96.0	90.5	157.9	58.3	87.3	121.7	83.3	78.1	110.3	95.7	114.1	71.1	121.4	103.7	84.8	80.6
April		94.0	90.2	165.9	59.1	87.2	121.4	82.9	78.8	110.0	95.5	114.1	71.1	123.0	103.2	85.3	80.6
May		93.5	88.4	168.2	58.7	87.1	121.7	82.1	79.8	110.1	95.6	114.3	71.4	123.8	103.6	85.8	80.4
June		94.8	88.8	164.7	59.9	87.1	121.6	81.8	79.1	110.2	95.6	114.3	71.9	122.7	103.4	86.5	80.5
May	29	94.7	88.4	165.7	59.5	87.2	121.6	82.0	78.8	110.2	95.6	114.4	71.5	123.0	103.5	86.2	80.5
June	5	94.7	88.6	165.4	59.6	87.0	121.6	81.8	79.2	110.2	95.6	114.3	71.6	122.9	103.4	86.1	80.6
	12	94.3	88.5	165.7	59.3	87.1	121.8	81.7	79.7	110.3	95.6	114.4	71.8	122.9	103.6	86.0	80.5
	19	94.6	88.6	165.1	59.8	87.1	121.6	81.7	79.5	110.2	95.5	114.3	71.8	122.6	103.5	86.3	80.6
	26	95.1	89.3	164.3	60.3	87.1	121.5	81.8	78.4	110.2	95.5	114.4	72.2	122.6	103.4	87.1	80.5
July	3	95.3	89.6	161.8	60.6	87.2	121.6	81.7	78.7	110.3	95.5	114.4	72.1	122.4	102.7	87.2	80.4
	10	95.8	90.1	159.1	60.0	87.2	121.5	81.6	79.4	110.2	95.4	114.3	72.3	121.9	102.4	87.3	80.5
	17	95.8	90.3	158.3	60.1	87.2	121.4	81.6	79.6	110.2	95.3	114.2	72.5	122.0	102.3	87.3	80.4
Real against 15 other industrial-country currencies																	
1981		100.8	99.5	104.8	102.6	100.0	96.9	98.9	102.5	99.4	101.4	97.1	99.6	98.7	98.9	101.3	101.9
1982		109.3	100.6	92.4	105.7	97.3	99.9	96.5	98.8	101.2	91.9	100.5	99.0	103.0	97.9	103.2	95.6
1983		112.7	102.6	96.8	101.9	94.7	101.0	101.1	93.1	102.0	88.6	100.8	88.9	105.1	100.4	102.0	90.7
1984		119.6	100.2	97.8	106.4	97.0	98.0	101.8	90.2	103.0	85.9	97.8	91.1	100.1	99.2	100.5	96.0
1985		122.5	96.5	96.6	89.5	100.5	96.7	100.2	92.8	103.3	85.3	96.6	92.5	98.0	101.2	99.5	96.9
1986		101.5	93.4	119.2	78.9	103.9	103.4	102.6	87.4	106.6	84.6	101.4	94.0	105.6	107.5	97.1	96.0
1987																	
January		94.5	94.7	120.9	77.5	105.3	107.0	105.8	82.2	108.8	86.1	104.6	93.6	108.6	111.5	95.6	95.4
February		93.1	95.8	120.5	77.9	105.8	107.4	105.4	82.3	109.3	85.8	105.1	93.5	108.6	112.0	98.5	95.5
March		92.4	96.4	121.0	79.9	105.5	106.2	104.8	86.0	108.1	85.1	104.9	93.4	108.9	112.2	98.6	95.7
April		90.5	96.5	126.3	81.4	105.8	106.2	103.7	87.1	107.2	83.9	105.4	93.8	109.6	111.9	99.9	95.6
May		90.0	95.1	127.6	81.3	106.3	106.5	102.3	88.5	107.2	83.0	105.7	94.3	110.4	112.4	100.5	95.7
June		91.5	95.1	124.4	83.1	106.6	106.1	102.5	87.6	107.4	82.9	104.9	95.0	110.2	112.3	103.6	95.6
Real against 18 other industrial-country and 22 LDC currencies																	
1981		99.8	99.4	104.7	102.5	99.5	96.2	98.2	102.0	98.9	100.9	96.6	98.9	98.0	98.7	101.3	101.6
1982		109.6	101.8	94.0	105.2	96.9	99.3	98.1	98.5	101.1	91.6	99.5	98.9	102.6	97.7	103.0	95.4
1983		114.9	104.6	100.4	102.1	94.4	100.6	100.8	93.0	102.1	88.2	99.5	89.2	105.1	100.3	101.9	90.9
1984		120.8	102.7	102.4	106.7	96.4	96.8	101.0	89.7	102.7	85.0	95.9	91.3	99.8	99.0	100.5	95.7
1985		124.0	99.2	101.6	90.1	100.0	95.8	99.8	92.3	102.9	84.5	94.8	93.2	97.8	101.2	99.8	96.8
1986		107.1	94.5	124.0	80.8	104.5	104.5	104.1	88.2	107.4	85.1	101.4	96.5	107.5	108.0	97.9	96.8
1987																	
January		101.3	95.4	125.5	79.4	106.7	109.5	108.5	83.7	110.4	87.3	105.7	97.4	111.8	112.3	96.6	96.6
February		100.2	96.5	125.0	79.8	107.4	110.1	108.3	84.1	111.0	87.2	106.2	97.4	112.0	113.0	99.6	96.8
March		99.5	97.0	125.6	81.9	106.9	108.8	107.6	87.7	109.8	86.4	106.1	97.2	112.0	113.2	99.7	97.1
April		97.5	96.8	130.8	83.4	107.0	108.7	106.4	88.8	108.7	85.2	106.5	97.5	112.6	112.9	100.9	96.9
May		97.0	95.4	132.0	83.3	107.5	109.0	105.0	90.3	108.6	84.4	106.7	98.1	113.4	113.5	101.7	97.3
June		98.1	95.4	128.8	84.7	107.7	108.4	105.1	89.3	108.9	84.2	105.8	98.8	113.2	113.3	104.6	97.0

Real effective exchange rates — developing countries

Index numbers, 1980-82 average=100.

	Argentina	Brazil	Chile	Colombia	Mexico	Peru	Venezuela	Hong Kong	Indonesia	Korea	Malaysia	Philippines	Singapore	Taiwan	Israel	Turkey
1981	107.8	103.3	108.3	100.6	114.4	103.3	99.7	98.9	99.8	100.3	99.4	101.2	102.0	101.8	99.3	104.7
1982	77.0	112.9	97.3	105.9	82.9	104.6	110.2	101.6	111.7	101.9	105.6	106.7	100.8	96.6	108.6	96.0
1983	71.5	86.2	89.2	104.9	78.8	98.4	117.2	95.8	96.3	97.6	113.9	96.1	101.8	94.5	120.8	93.5
1984	80.1	85.7	90.1	99.6	91.8	105.8	86.0	100.2	96.0	96.5	119.7	107.9	102.4	97.1	119.5	91.1
1985	71.2	85.1	79.7	85.7	90.5	96.3	93.0	104.2	94.8	89.2	116.4	114.6	95.7	94.6	106.8	91.5
1986	61.0	74.5	68.7	67.8	65.1	93.8	85.4	94.9	71.7	75.8	94.6	90.2	80.3	88.7	100.9	71.1
1986																
July	61.5	72.1	69.5	66.7	65.0	92.0	89.7	93.3	76.3	74.2	91.9	87.7	78.5	88.9	100.9	69.7
August	60.9	72.1	67.8	66.0	62.3	91.8	89.7	92.4	75.1	73.5	91.4	85.7	78.4	88.9	99.4	67.7
September	58.7	72.4	67.5	65.8	60.6	93.5	89.9	94.0	62.0	74.0	91.0	86.4	77.9	89.3	100.4	67.4
October	58.7	71.6	67.7	64.9	60.4	96.6	90.7	94.7	56.3	74.2	89.9	88.0	77.4	89.0	100.8	67.6
November	59.3	72.8	68.0	64.6	60.6	100.7	92.2	96.7	57.7	75.6	92.2	88.9	78.5	90.3	102.0	65.7
December	58.7	75.9	68.0	65.2	59.8	105.4	47.4	95.2	57.3	75.8	91.9	90.0	78.4	89.9	102.1	64.6
1987																
January	56.2	75.9	65.6	65.7	60.8	107.8	46.3	91.0	56.0	74.1	90.3	87.5	76.4	88.8	94.6	63.7
February	55.5	71.7	66.1	66.1	61.2	111.1	46.7	90.5	56.0	73.7	89.7	84.9	74.7	88.4	93.3	63.3
March	53.3	71.3	66.6	65.7	62.1	113.0	46.6	91.5	55.1	73.8	89.1	84.5	74.2	89.2	94.5	64.0
April	53.2	74.2	66.1	64.7	62.2	115.9	46.4	90.7	53.7	73.6	88.7	81.2	73.0	89.7	95.1	63.5
May	54.0	72.3	66.5	63.6	59.7	118.3	46.7	90.9	53.8	74.1	88.1	80.3	74.0	95.0	95.2	63.1
June	52.5	71.9	66.9	63.6	61.8	122.5	47.2	92.5	54.6	75.4	88.6	80.2	75.2	98.8	97.8	62.2

International banking market size

at end of period, billions of dollars

	1981	1982	1983	1984	1985	1986			
					Dec	Mar	Jun	Sep	Dec
Gross claims									
Eurocurrencies, on residents and nonresidents	**1 929**	**2 146**	**2 253**	**2 359**	**2 833**	**2 947**	**3 040**	**3 347**	**3 560**
On nonbanks	557	634	665	694	822	854	875	914	938
On banks	1 372	1 512	1 588	1 665	2 011	2 093	2 165	2 433	2 622
In dollars	1 504	1 694	1 797	1 894	2 101	2 138	2 166	2 381	2 534
In other currencies	425	452	456	465	732	809	874	966	1 025
Domestic currencies, on nonresidents	**365**	**398**	**402**	**402**	**506**	**535**	**578**	**633**	**672**
On nonbanks	128	132	140	142	187	186	201	211	209
On banks	237	266	262	260	319	349	377	422	463
In dollars	188	211	221	215	215	203	210	219	227
In other currencies	177	187	181	187	291	332	368	414	445
Total	**2 294**	**2 544**	**2 655**	**2 761**	**3 339**	**3 482**	**3 618**	**3 980**	**4 232**
On nonbanks	685	766	805	836	1 009	1 040	1 076	1 125	1 147
On banks	1 609	1 778	1 850	1 925	2 330	2 442	2 542	2 855	3 085
In dollars	1 692	1 905	2 018	2 109	2 316	2 341	2 376	2 600	2 761
In other currencies	602	639	637	652	1 023	1 141	1 242	1 380	1 470
Gross liabilities									
Eurocurrencies, to residents and nonresidents	**1 954**	**2 168**	**2 278**	**2 386**	**2 846**	**2 964**	**3 059**	**3 384**	**3 579**
To nonbanks	372	432	479	497	585	610	632	660	685
To official monetary institutions	112	91	88	96	112	106	109	110	109
To other banks	1 470	1 645	1 711	1 793	2 149	2 248	2 318	2 614	2 786
In dollars	1 539	1 741	1 846	1 950	2 147	2 166	2 204	2 425	2 553
In other currencies	415	427	432	436	699	798	855	959	1 026
Domestic currencies, to nonresidents	**263**	**250**	**260**	**280**	**377**	**394**	**418**	**464**	**494**
To nonbanks	74	70	73	80	114	121	121	121	116
To banks	189	180	187	200	263	273	297	343	377
In dollars	126	116	135	148	169	166	171	191	192
In other currencies	137	134	125	134	208	228	247	273	302
Total	**2 217**	**2 418**	**2 538**	**2 666**	**3 223**	**3 358**	**3 477**	**3 848**	**4 073**
To nonbanks	446	502	552	577	699	731	753	781	801
To banks and official institutions	1 771	1 916	1 986	2 089	2 524	2 627	2 724	3 067	3 272
In dollars	1 665	1 857	1 981	2 098	2 316	2 332	2 375	2 616	2 745
In other currencies	552	561	557	570	907	1 026	1 102	1 232	1 328
Net market size	**1 155**	**1 285**	**1 382**	**1 430**	**1 676**	**1 735**	**1 800**	**1 910**	**1 980**

International bond issues and bank credits

millions of dollars

	1984	1985	1986	1987			Jan-May	
				Mar	Apr	May	1987	1986
By country of borrower								
Industrial countries	**177 077**	**226 711**	**270 231**	**22 443**	**22 634**	**13 755**	**102 241**	**109 831**
Australia	5 816	14 407	20 106	909	922	883	4 878	8 379
Austria	2 254	2 435	3 581	190	156	233	1 974	2 019
Belgium	1 847	3 269	4 952	238	468	543	2 054	2 611
Canada	13 124	17 184	21 633	963	891	630	4 323	7 581
Denmark	4 825	3 589	9 633	442	224	400	3 502	1 543
Finland	1 713	1 846	3 445	245	417	359	1 967	1 164
France	11 298	18 773	19 701	1 338	1 071	696	7 243	6 735
Germany	2 165	3 452	11 927	1 319	433	683	5 916	5 249
Greece	1 551	1 587	1 317	—	—	—	110	488
Ireland	1 377	1 881	4 179	—	682	144	939	1 483
Italy	6 933	11 033	12 962	793	332	961	3 254	6 545
Japan	17 526	21 269	35 508	4 558	5 862	1 804	17 606	12 202
Netherlands	1 973	2 299	3 579	358	304	326	2 113	1 626
New Zealand	3 208	2 707	8 078	847	354	106	2 536	2 974
Norway	1 324	3 905	6 644	1 459	146	300	3 355	1 372
Portugal	1 796	2 382	2 433	168	—	432	815	920
South Africa	1 422	825	—	—	—	—	—	—
Spain	4 931	3 913	7 015	25	130	205	757	1 507
Sweden	11 256	9 890	8 020	729	274	356	2 689	5 558
United Kingdom	8 899	25 424	24 295	2 468	6 132	1 764	15 347	8 966
United States	65 054	69 193	56 774	5 060	3 608	2 665	18 469	28 661
*Other**	6 785	5 447	4 448	334	227	262	2 193	2 249
Developing countries	**39 725**	**32 139**	**24 317**	**2 080**	**8 957**	**890**	**14 240**	**10 662**
Latin American countries	**17 484**	**8 115**	**3 192**	**54**	**7 750**	**170**	**8 525**	**916**
Argentina	4 212	3 700	17	—	—	—	—	17
Brazil	6 649	—	219	—	—	—	—	—
Chile	784	1 085	—	—	—	—	—	—
Colombia	589	1 052	89	—	50	—	50	—
Mexico	3 918	109	313	—	7 700	—	7 700	50
Venezuela	—	48	—	—	—	—	—	—
*Other***	1 312	2 121	2 554	54	—	170	775	849
Asian countries	**15 893**	**18 410**	**15 291**	**1 584**	**858**	**657**	**4 415**	**7 585**
India	945	818	1 721	262	56	30	625	695
Indonesia	1 924	451	1 358	60	346	24	620	983
Korea	6 201	5 898	3 134	750	—	47	822	1 841
Malaysia	2 605	2 219	1 328	—	83	—	167	208
Philippines	925	925	—	—	—	—	—	—
Thailand	1 221	1 497	1 401	100	69	—	169	1 016
Other	2 072	6 602	6 350	412	303	556	2 011	2 843
Middle Eastern and African countries	**6 368**	**5 613**	**5 834**	**442**	**351**	**63**	**1 301**	**2 160**
Algeria	821	1 450	1 344	75	76	3	154	407
Nigeria	985	—	—	—	—	—	—	—
Turkey	741	1 203	2 637	207	200	35	747	1 012
Other	3 821	2 960	1 853	160	75	25	400	741
Eastern European countries	**3 244**	**5 236**	**4 091**	**464**	**335**	**169**	**1 656**	**1 919**
Hungary	1 386	1 577	1 315	104	138	—	714	521
Soviet Union	1 051	1 489	1 821	79	200	169	662	1 248
*Other****	807	2 169	955	280	—	—	280	150
International organizations****	**13 287**	**20 635**	**16 916**	**1 390**	**1 430**	**611**	**7 995**	**8 070**
By type of instrument and currency								
International bond issues	**107 411**	**167 756**	**226 393**	**19 723**	**16 427**	**12 515**	**87 436**	**95 117**
Eurobonds	79 458	136 731	187 952	17 507	14 397	10 399	74 100	78 402
U.S. dollar	63 593	97 782	118 220	6 219	6 201	2 899	26 701	46 885
German mark	4 604	9 491	16 870	1 306	329	976	8 810	8 044
British pound	3 997	5 766	10 510	2 760	1 110	1 678	8 157	5 712
Japanese yen	1 212	6 539	18 673	3 349	4 205	2 189	14 562	7 166
European composite units	3 032	7 038	6 965	784	432	760	4 569	3 711
Other	3 020	10 114	16 713	3 089	2 121	1 897	11 301	6 883
Foreign bonds	27 953	31 025	38 441	2 215	2 030	2 116	13 335	16 715
U.S. dollar	5 487	4 655	6 064	600	200	—	1 750	2 664
German mark	2 243	1 741	—	—	—	—	—	—
British pound	1 292	958	322	—	—	—	—	186
Swiss franc	12 626	14 954	23 401	1 447	1 413	1 385	8 789	9 827
Japanese yen	4 628	6 379	4 756	—	104	432	1 517	2 777
Other	1 677	2 339	3 698	168	313	300	1 279	1 261
International bank credits	**125 922**	**116 964**	**91 164**	**5 653**	**16 932**	**2 909**	**38 697**	**35 385**
Eurocurrency credits	112 605	110 317	82 755	5 871	16 293	2 495	35 669	32 833
Foreign credits	13 317	6 647	8 409	782	639	414	3 029	2 532
Total	**233 333**	**284 720**	**317 556**	**26 376**	**33 359**	**15 424**	**127 133**	**130 482**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

	1983	1984	1985	1986	1987					
	Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun
Eurodollar										
overnight	9.50	8.63	12.25	22.00	6.00	5.87	6.25	6.50	6.69	6.44
one month	9.69	8.38	8.00	6.50	6.06	6.31	6.44	6.69	7.12	6.94
three months	9.81	8.63	7.88	6.25	6.12	6.31	6.50	7.00	7.25	7.06
six months	10.06	9.13	7.88	6.12	6.12	6.31	6.56	7.25	7.44	7.25
twelve months	10.38	9.81	7.94	6.12	6.12	6.37	6.69	7.62	7.94	7.62
Euro-Canadian dollar										
one month	9.13	9.88	9.00	8.00	7.37	7.12	6.87	7.37	7.87	8.06
three months	9.50	10.81	9.00	8.12	7.37	7.25	6.87	8.25	8.12	8.19
six months	9.75	10.06	9.00	8.19	7.37	7.44	6.94	8.62	8.44	8.37
twelve months	10.00	10.44	9.00	8.31	7.50	7.62	7.06	8.87	8.87	8.69
Euro-French franc										
one month	12.13	10.69	12.50	10.12	8.81	8.31	8.19	8.12	8.00	8.06
three months	12.19	10.69	13.00	10.37	8.87	8.44	8.25	8.25	8.19	8.37
six months	12.31	11.00	13.13	9.75	8.81	8.44	8.31	8.31	8.37	8.56
twelve months	12.63	11.38	12.25	8.75	8.81	8.44	8.31	8.50	8.62	9.00
Euromark										
one month	5.25	5.50	4.75	5.12	4.00	3.94	3.87	3.81	3.75	3.62
three months	5.88	5.50	4.75	4.87	4.12	4.00	3.87	3.81	3.75	3.81
six months	6.13	5.56	4.75	4.81	4.12	4.00	3.87	3.87	3.75	3.81
twelve months	6.38	5.56	4.81	4.81	4.19	4.12	4.00	4.00	3.87	3.87
Euro-Dutch guilder										
one month	5.81	5.69	5.75	6.31	5.44	5.31	5.31	5.19	5.06	5.19
three months	6.00	5.75	5.75	6.00	5.31	5.31	5.31	5.19	5.06	5.19
six months	6.25	5.81	5.81	5.87	5.19	5.25	5.31	5.19	5.12	5.19
twelve months	6.38	5.94	5.88	5.81	5.19	5.25	5.31	5.19	5.12	5.19
Euro-Swiss franc										
one month	3.38	4.44	3.88	3.94	3.25	4.19	3.25	3.25	4.25	3.69
three months	3.75	4.56	4.00	3.94	3.19	3.94	3.69	3.69	3.87	3.81
six months	3.94	4.63	4.00	3.87	3.31	3.87	3.69	3.69	3.87	3.81
twelve months	3.94	4.69	4.06	3.87	3.62	3.94	3.75	3.81	3.87	3.87
Eurosterling										
one month	9.13	9.50	11.69	11.12	11.06	11.12	10.00	9.44	8.87	9.12
three months	9.31	9.88	11.81	11.12	11.00	10.69	9.81	9.25	8.81	9.19
six months	9.50	10.00	11.81	11.06	10.87	10.37	9.69	9.12	8.81	9.19
twelve months	9.81	10.19	11.69	11.06	10.75	10.31	9.62	9.12	9.06	9.31
Euroyen										
one month	6.25	6.19	7.13	4.56	4.37	4.56	3.94	3.94	4.00	3.81
three months	6.31	6.19	6.56	4.50	4.25	4.25	4.00	3.94	3.87	4.00
six months	6.38	6.13	6.50	4.37	4.12	4.12	4.00	3.87	3.87	4.00
twelve months	6.44	6.13	6.38	4.31	4.06	4.06	4.00	3.94	3.94	4.06
European currency unit										
one month	8.81	9.25	9.63	8.56	7.62	7.44	7.16	6.94	6.69	6.56
three months	9.19	9.38	9.63	8.44	7.56	7.44	7.16	6.94	6.87	6.75
six months	9.44	9.50	9.63	8.06	7.50	7.44	7.16	7.00	7.00	6.94
twelve months	9.63	9.63	9.63	7.31	7.50	7.37	7.19	7.19	7.12	7.12

International bond yields

average yield of several actively traded, high quality issues with a maturity of 7 to 12 years at or near end of month

	1984	1985	1986		1987					
	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States companies										
Eurodollar	11.25	9.68	8.71	8.67	8.70	8.71	8.78	9.53	9.78	10.11
Euromark	6.95	6.73	6.63	6.62	6.64	6.60	6.56	6.59	6.57	6.65
Swiss franc	5.73	5.49	5.73	5.70	5.67	5.64	5.68	5.55	5.52	5.50
European governments										
Eurodollar	12.04	10.52	9.81	9.91	9.85	10.03	10.08	11.00	11.24	11.14
Euromark	7.39	7.03	6.88	6.77	6.64	6.70	6.50	6.33	6.35	6.36
Swiss franc	5.24	4.91	4.58	4.51	4.40	4.35	4.37	4.27	4.34	4.33
European currency unit	10.64	10.23	10.55	10.20	10.38	10.37	10.26	13.07	10.32	10.51

Central bank discount rates

at or near end of month

	1984	1985	1986	1987					Current	
	Dec	Dec	Dec	Feb	Mar	Apr	May	Jun	Jul 23 1987	effective since
United States	8.00	7.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	Aug 21, 86
Canada	10.09	9.49	8.47	7.53	7.05	8.33	8.44	8.54	8.67	Jul 16, 87
Austria	4.50	4.00	4.00	3.50	3.50	3.50	3.50	3.50	3.50	Jan 23, 87
Belgium	11.00	9.75	8.00	8.50	8.00	8.00	7.75	7.50	7.25	Jul 23, 87
Denmark	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Oct 27, 83
Finland	9.50	9.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	May 19, 86
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	4.50	4.00	3.50	3.00	3.00	3.00	3.00	3.00	3.00	Jan 23, 87
Ireland	14.00	10.25	13.25	13.25	13.25	12.75	11.75	11.25	11.25	Jun 16, 87
Italy	16.50	15.00	12.00	12.00	11.50	11.50	11.50	11.50	11.50	Mar 14, 87
Netherlands	5.00	5.00	4.50	4.50	4.50	4.50	4.50	4.50	4.50	Mar 7, 86
Norway	8.00	8.00	8.00	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	Jun 6, 83
Portugal	25.00	19.00	16.00	15.50	15.00	15.00	15.00	15.00	15.00	Mar 23, 87
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	9.50	10.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	Sep 19, 86
Switzerland	4.00	4.00	4.00	3.50	3.50	3.50	3.50	3.50	3.50	Jan 22, 87
United Kingdom	9.38	11.31	10.81	10.81	9.81	9.31	8.87	8.87	8.87	May 8, 87
Japan	5.00	5.00	3.00	2.50	2.50	2.50	2.50	2.50	2.50	Feb 23, 87
New Zealand	13.50	19.80	24.60	25.80	28.20	28.40	n.a.	n.a.	28.40	Apr, 87
South Africa	21.75	13.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	Dec 10, 86
Argentina*	18.19	5.00	11.19	10.76	6.25	9.00	9.00	10.50	10.50	Jun 23, 87
Korea	5.00	5.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Jul 10, 86
Philippines	12.11	11.50	9.64	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	Dec, 86
Singapore	6.75	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Jul, 85
Thailand	12.00	11.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Sep 1, 86
Venezuela	11.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	Mar, 85

*Percent per month.

Day-to-day money rates

monthly averages

	1983	1984	1985	1986		1987					
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States	9.47	8.38	8.27	5.64	6.71	6.43	5.45	6.13	6.37	6.85	6.73
Canada	8.78	10.50	9.23	8.28	8.28	8.03	7.22	7.16	7.10	7.41	8.35
Austria	5.75	7.63	7.25	5.00	7.62	4.25	4.25	4.12	4.25	3.80	3.95
Belgium	7.39	9.12	6.60	5.81	5.09	7.75	6.90	5.83	5.65	5.60	5.65
Finland	16.70	15.07	11.96	11.80	11.97	11.99	11.76	11.44	11.14	11.00	11.00
France	12.27	10.95	9.01	7.28	7.28	8.80	8.38	7.80	8.03	8.05	7.85
Germany	5.61	5.62	4.64	4.45	5.00	4.24	3.83	3.84	3.75	3.75	3.53
Ireland	12.19	14.50	9.62	13.13	13.00	13.36	13.94	13.75	13.25	12.00	n.a.
Italy	17.88	17.25	14.75	9.67	11.42	11.88	11.81	11.22	10.56	10.25	10.78
Netherlands	5.84	5.60	5.75	5.60	6.19	6.20	5.31	5.56	5.19	5.20	5.19
Norway	12.30	12.50	12.40	14.00	14.00	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Spain	16.98	12.18	9.92	11.69	11.76	12.21	12.47	14.43	17.32	20.18	18.12
Sweden	11.52	11.88	11.83	8.64	8.89	9.09	11.73	12.02	8.70	8.00	8.00
Switzerland	1.88	1.50	2.00	1.00	1.12	1.00	1.00	1.00	1.75	1.37	2.25
United Kingdom	7.78	6.31	9.72	10.62	9.19	11.06	10.88	10.30	9.61	8.78	9.16
Australia	4.55	10.98	18.37	16.21	15.40	15.73	16.22	16.05	14.71	13.45	n.a.
Japan	6.44	6.41	8.02	3.77	4.18	4.09	4.05	3.85	3.52	3.17	3.15
South Africa	16.06	21.13	12.50	8.87	8.50	9.00	8.50	8.37	8.31	8.37	8.00
Argentina*	14.65	17.75	4.50	7.00	7.00	7.00	4.00	5.32	5.50	6.00	8.00
Brazil	184.69	272.02	352.23	55.55	83.05	270.00	412.00	406.00	853.00	n.a.	n.a.
Hong Kong	13.90	6.80	6.10	4.15	3.90	2.78	1.97	3.76	4.11	4.20	6.45
Korea	11.40	10.00	8.80	9.30	9.00	8.50	8.60	8.80	8.40	8.50	8.90
Philippines	31.18	15.22	15.03	7.98	n.a.	n.a.	6.44	13.79	13.29	n.a.	n.a.
Singapore	7.05	6.01	4.53	2.62	3.51	3.10	3.22	2.24	3.31	4.39	2.57
Taiwan	7.65	8.07	4.50	3.60	3.00	3.25	3.25	3.10	3.50	3.50	3.50

*Percent per month.

Treasury bill rates

bond equivalent yields, at or near end of month

	1983	1984	1985	1986		1987					
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States	8.28	7.99	7.25	5.44	5.73	5.66	5.48	5.76	5.61	5.82	5.90
Canada	9.71	9.84	9.24	8.24	8.22	7.24	7.28	6.80	8.08	8.19	8.29
Belgium	11.00	10.90	9.89	7.45	7.50	7.99	7.86	7.50	7.35	7.15	6.84
Ireland	12.01	15.10	11.15	14.22	13.60	13.91	13.67	13.51	11.29	10.86	n.a.
Italy	16.29	14.19	12.70	10.00	10.00	9.94	9.74	9.66	9.60	9.60	9.60
Netherlands	5.63	5.88	5.69	5.81	6.37	5.94	5.87	5.44	5.31	5.31	4.75
Spain	15.27	12.27	9.52	8.26	8.37	6.94	7.67	n.t.	9.61	10.40	9.58
Sweden	11.75	11.83	12.49	9.05	9.20	10.25	10.80	10.31	9.25	9.16	8.60
United Kingdom	9.04	9.33	11.49	11.01	10.79	10.59	10.46	9.54	9.39	8.68	8.96
Australia	8.54	12.27	19.40	15.49	14.91	16.64	16.32	15.47	14.00	13.10	n.a.
Japan	4.91	4.91	4.91	2.89	2.89	2.89	2.89	2.38	2.38	2.38	2.38
New Zealand	7.80	13.50	17.62	16.44	19.69	22.36	25.38	24.70	25.29	19.48	n.a.
South Africa	18.43	21.94	12.99	8.62	8.84	8.77	8.78	8.26	8.60	8.96	8.64
Brazil	179.15	273.03	379.77	33.00	149.00	276.40	n.t.	n.t.	n.t.	n.a.	n.a.
Mexico	53.78	48.67	72.98	103.77	104.03	104.64	104.83	100.66	99.01	98.60	98.40
Philippines	15.99	47.14	16.45	11.32	n.a.	n.a.	7.71	11.76	11.80	n.a.	n.a.
Singapore	2.59	2.91	2.94	1.93	2.10	2.19	1.67	1.93	2.12	2.61	2.63

Representative money market rates

bond-equivalent yields on major short-term (mostly 3-4 month) money market instruments other than Treasury bills, at or near end of month

	1983	1984	1985	1986		1987					
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States	9.89	8.34	8.01	5.96	8.04	6.97	6.24	6.70	6.96	7.12	7.10
Canada	9.85	10.00	9.40	8.35	8.35	7.45	7.40	6.90	8.15	8.30	8.45
Belgium	11.15	10.85	9.89	7.50	7.60	7.66	7.81	7.50	7.40	7.25	7.00
France	12.19	10.69	9.12	7.60	8.37	8.50	8.25	7.87	8.00	8.12	8.12
Germany	6.30	5.75	4.80	4.65	4.85	3.90	3.85	3.85	3.80	3.65	3.65
Ireland	12.19	15.13	12.00	14.44	14.06	14.12	14.25	13.37	10.87	11.19	n.a.
Italy	17.88	16.88	15.13	11.12	11.37	11.37	11.12	10.12	10.00	10.50	11.00
Netherlands	6.00	5.75	5.75	5.81	6.19	5.44	5.50	5.55	5.31	5.25	5.25
Portugal	24.11	24.57	20.71	15.93	16.07	14.95	14.94	14.95	14.96	15.03	n.a.
Spain	19.00	12.21	10.51	11.52	11.79	12.35	12.60	14.60	17.09	19.80	18.29
Switzerland	3.88	5.00	4.75	4.00	4.50	3.75	4.00	3.87	3.75	3.87	3.81
United Kingdom	9.31	9.88	12.75	11.44	11.25	11.12	10.19	10.06	9.25	9.00	9.25
Australia	9.05	12.90	19.75	15.90	15.10	16.40	16.60	16.27	14.50	13.80	n.a.
Japan	6.45	6.33	7.03	4.43	4.34	4.22	3.96	3.98	3.89	3.70	3.75
New Zealand	11.75	15.00	20.00	16.50	24.25	23.60	25.15	25.60	25.70	20.35	n.a.
South Africa	19.12	22.78	13.35	8.90	8.55	9.20	9.05	8.40	9.10	9.00	8.80
Chile	20.68	20.68	22.42	20.98	19.56	25.34	25.34	23.87	22.42	28.32	14.03
Hong Kong	14.88	8.25	6.50	4.44	4.62	3.44	4.37	4.87	5.50	6.25	6.87
Indonesia	19.50	19.00	15.00	14.50	19.50	16.50	16.00	17.00	16.50	18.00	27.00
Korea	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Malaysia	9.80	10.30	8.20	6.70	6.00	5.30	3.30	2.60	2.70	2.80	2.75
Philippines	15.61	33.21	14.61	10.31	8.31	8.34	7.05	8.72	10.05	n.a.	n.a.
Singapore	8.44	7.00	5.88	3.19	3.94	3.34	3.31	3.26	3.73	4.44	4.31
Taiwan	8.07	7.85	4.10	2.86	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Thailand	16.00	12.00	15.50	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75

Commercial bank deposit rates

at or near end of month

	1983	1984	1985	1986		1987					
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States	9.70	8.35	7.75	5.76	6.30	6.00	6.13	6.30	6.80	7.06	6.90
Canada	9.82	10.05	9.40	8.30	8.15	7.50	7.40	7.00	8.25	8.45	8.50
Austria	6.50	7.50	6.50	5.37	5.50	5.12	4.75	4.50	4.37	4.15	4.15
Belgium	11.25	10.63	9.63	7.37	7.44	7.75	7.69	7.37	7.19	7.00	6.56
Denmark	6.00	6.00	7.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Finland	5.25	5.25	4.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	n.a.
France	7.66	7.04	6.12	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Germany	5.90	5.25	4.40	4.60	4.80	4.70	3.90	3.95	3.95	3.85	3.75
Ireland	11.75	14.63	11.87	14.12	13.75	14.00	14.00	13.25	10.75	11.00	n.a.
Italy	13.25	11.64	11.85	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Netherlands	6.13	5.69	5.81	5.69	6.06	5.31	5.37	5.37	5.25	5.12	5.12
Norway	12.75	12.75	12.00	15.00	15.00	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Portugal	21.50	28.00	20.00	n.a.	n.a.	15.00	15.00	14.50	14.50	14.50	n.a.
Spain	12.62	11.64	9.64	8.65	8.67	8.54	8.57	8.58	8.60	8.87	n.a.
Sweden	11.70	11.45	12.18	9.85	9.93	10.30	11.00	10.75	9.75	10.00	9.00
Switzerland	3.50	4.50	4.50	3.75	4.25	3.50	3.75	3.62	3.50	3.62	3.56
United Kingdom	9.31	9.88	11.75	11.25	11.19	11.00	10.59	9.84	9.25	8.81	9.25
Australia	10.40	12.75	18.80	15.73	15.56	15.73	16.62	16.19	15.21	14.42	n.a.
Japan	6.40	6.38	7.05	4.65	4.55	4.16	4.17	4.20	4.11	3.88	3.96
New Zealand	11.75	15.25	19.98	19.00	23.50	22.72	23.70	23.30	23.85	20.00	n.a.
South Africa	20.13	22.88	13.20	9.25	8.65	9.50	9.25	8.75	9.15	9.25	9.00
Argentina*	14.50	31.23	5.40	7.97	8.41	8.81	4.43	4.86	7.17	7.81	7.96
Brazil**	23.00	27.00	18.00	85.00	220.00	400.00	32.00	30.00	24.00	n.a.	n.a.
Chile	20.57	20.68	23.60	20.27	20.98	26.97	27.42	24.31	25.93	30.30	18.72
Hong Kong	14.88	8.25	6.50	4.44	4.62	3.44	4.37	4.87	5.50	6.25	6.87
Korea	7.60	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Malaysia	7.75	9.58	7.00	6.42	6.33	4.83	4.66	2.33	2.43	2.35	2.42
Mexico	57.15	47.45	72.90	94.30	94.30	94.30	94.30	94.30	94.30	94.30	94.30
Philippines	14.96	31.01	12.34	9.55	n.a.	n.a.	6.68	6.13	7.96	n.a.	n.a.
Singapore	7.44	6.13	5.26	3.13	3.63	3.19	3.32	3.32	3.63	n.a.	n.a.
Taiwan	7.00	6.50	5.25	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Thailand	10.00	13.00	10.50	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75
Venezuela	12.00	12.50	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00

*Percent per month.

**Spread above monetary correction until Feb 86; nominal rate of interest until Jan 87; spread above LBC rate thereafter.

Domestic government bond yields

long-term issues, at or near end of month

	1983	1984	1985	1986		1987					
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States	12.00	11.61	9.49	7.69	7.79	7.47	7.48	7.81	8.45	8.65	8.50
Canada	12.02	11.66	10.04	9.26	9.23	8.94	9.10	8.98	9.82	9.92	9.78
Austria	8.02	8.04	7.61	7.36	7.33	7.25	7.05	6.93	6.86	6.74	6.61
Belgium	11.89	11.56	9.60	7.41	7.70	7.57	7.57	7.64	7.66	7.76	7.82
Denmark	12.96	14.60	9.67	11.80	11.70	11.33	12.63	12.23	11.96	11.87	12.06
Finland	11.16	10.73	10.58	7.74	7.80	7.78	7.82	7.89	7.77	7.88	7.85
France	13.96	12.70	11.33	9.49	9.89	9.54	9.84	9.42	9.51	9.86	10.40
Germany	8.38	7.17	6.57	6.33	6.25	6.20	6.26	6.12	5.98	5.99	6.31
Ireland	14.25	14.90	11.84	13.49	13.97	12.97	11.16	12.41	n.a.	n.a.	n.a.
Italy	17.69	14.52	13.66	10.33	10.05	9.78	9.84	10.03	10.08	10.20	10.41
Netherlands	8.58	7.72	6.96	6.30	6.40	6.21	6.15	6.22	6.12	6.07	6.26
Norway	12.50	12.00	13.10	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Portugal	22.11	22.23	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Spain	17.25	13.93	12.30	10.29	10.36	10.74	10.59	10.95	12.04	13.43	13.20
Sweden	12.30	12.04	12.11	10.35	10.66	11.70	11.23	10.70	11.07	11.77	11.37
Switzerland	4.53	4.60	4.42	4.07	4.05	3.93	4.01	4.04	4.03	4.10	4.06
United Kingdom	9.94	10.25	10.35	10.58	10.17	10.64	9.51	9.15	8.87	8.79	9.15
Australia	13.65	13.50	14.85	13.60	13.40	13.80	14.00	13.45	13.05	12.97	n.a.
Japan	6.94	6.30	5.82	4.73	4.61	4.25	3.96	3.72	3.42	3.38	3.91
New Zealand	10.50	16.90	17.00	16.00	16.00	16.20	16.60	16.30	15.95	15.65	n.a.
South Africa	13.64	16.55	18.09	14.13	15.06	15.33	15.30	14.66	15.30	15.70	15.60
Philippines	14.47	16.54	n.t.	n.t.	n.t.	n.t.	n.t.	n.t.	n.t.	n.a.	n.a.
Venezuela	13.50	14.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00

Commercial bank lending rates to prime borrowers

at or near end of month

	1983	1984	1985	1986		1987					
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States	11.00	10.75	9.50	7.50	7.50	7.50	7.50	7.50	7.75	8.25	8.25
Canada	11.00	11.25	10.00	9.75	9.75	9.25	9.25	8.75	9.25	9.50	9.50
Austria	9.25	9.25	9.00	9.00	9.00	9.00	8.75	8.75	8.75	8.75	8.50
Belgium	13.75	14.00	11.50	9.75	9.75	10.75	10.25	9.75	9.75	9.25	9.25
Denmark	10.00	10.50	8.50	8.00	8.00	9.50	10.00	10.00	10.00	10.00	9.50
Finland	10.18	10.68	10.37	8.74	8.81	8.81	8.80	8.84	8.86	n.a.	n.a.
France	12.25	12.00	10.60	9.45	9.45	9.45	9.45	9.45	9.45	9.45	9.45
Germany	7.75	7.75	7.25	6.75	6.75	6.75	6.25	6.25	6.25	6.25	6.25
Ireland	13.75	15.75	12.50	15.75	15.75	15.75	15.75	15.75	15.25	14.25	n.a.
Italy	18.75	18.00	15.88	13.00	13.00	13.00	13.00	12.50	12.50	12.50	12.50
Netherlands	7.00	6.25	6.25	6.12	7.12	6.12	5.75	5.87	5.75	5.62	5.62
Norway	13.50	13.00	12.40	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Portugal	30.00	29.00	22.50	17.50	17.50	17.50	17.50	19.50	19.50	19.50	n.a.
Spain	17.31	15.84	14.75	14.23	14.22	14.24	14.24	14.57	15.23	16.21	n.a.
Sweden	13.50	14.50	15.05	11.50	11.50	11.50	11.50	11.50	11.50	11.50	11.50
Switzerland	6.00	6.00	6.00	5.75	5.75	5.25	5.25	5.25	5.00	5.00	5.00
United Kingdom	9.00	9.50	11.50	11.00	11.00	11.00	11.00	10.00	9.50	9.00	9.00
Australia	12.75	14.00	21.00	18.50	18.25	18.00	18.25	18.25	17.50	16.80	n.a.
Japan	5.99	5.70	5.71	4.45	4.35	4.28	4.24	4.12	4.00	4.00	n.a.
New Zealand	11.00	14.00	21.00	18.50	18.50	24.00	25.00	27.00	29.00	22.50	n.a.
South Africa	20.00	24.00	16.50	13.50	12.00	12.50	12.50	12.50	12.50	12.50	12.50
Argentina*	15.50	32.05	7.30	8.85	11.30	9.85	5.45	5.71	9.20	8.50	9.65
Brazil**	24.00	31.00	19.00	88.00	250.00	440.00	45.00	40.00	37.00	n.a.	n.a.
Chile	30.90	30.82	33.34	29.13	29.13	33.57	36.07	34.48	36.07	40.27	30.91
Hong Kong	13.50	11.00	7.00	6.50	6.50	5.00	5.00	6.00	6.50	6.50	7.50
Indonesia	19.75	23.50	18.75	18.25	19.75	20.50	19.50	19.50	19.25	19.75	26.00
Korea	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	11.00	12.00	10.50	10.50	10.00	9.00	9.00	9.00	8.50	8.50	7.75
Mexico	58.44	47.54	65.66	94.19	95.33	95.89	96.20	96.25	95.79	94.79	93.76
Philippines	10.00	44.00	15.00	11.00	10.00	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Singapore	8.98	9.40	7.20	6.10	6.10	6.10	6.10	6.10	6.10	6.10	6.10
Taiwan	10.25	10.00	9.50	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00
Thailand	16.00	16.50	15.50	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00
Venezuela	16.00	16.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00

*Percent per month.

**Spread above monetary correction until Feb 86; nominal rate of interest until Jan 87; spread above LBC rate thereafter.

Domestic corporate bond yields

long-term issues, at or near end of month

	1983	1984	1985	1986		1987					
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States	12.63	12.25	10.15	8.86	8.88	8.50	8.55	8.65	9.60	9.55	9.55
Canada	12.89	12.42	10.74	10.21	10.18	9.67	9.90	9.79	10.44	10.44	10.46
France	14.35	12.94	11.76	9.77	10.18	9.92	10.06	9.79	9.72	10.05	10.38
Germany	8.30	7.20	6.90	6.60	6.50	6.50	6.40	6.60	6.50	6.40	6.50
Netherlands	8.51	7.51	n.t.	n.t.	n.t.	n.t.	n.t.	n.t.	n.t.	n.t.	n.t.
Norway	13.25	12.75	14.00	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Spain	20.07	18.32	14.92	13.61	13.40	13.72	14.13	14.82	15.52	15.76	16.39
Sweden	12.21	12.33	13.25	11.72	11.99	13.00	12.63	12.15	12.15	12.89	12.47
Switzerland	4.92	5.09	4.93	4.71	4.72	4.62	4.56	4.58	4.57	4.56	4.56
United Kingdom	11.57	11.64	11.47	11.43	11.71	11.30	10.58	10.21	10.09	10.19	10.15
Japan	7.49	7.11	6.79	6.05	5.93	5.46	5.35	5.20	4.99	4.71	n.a.
Korea	14.20	15.00	13.60	12.70	12.80	12.80	12.70	13.00	13.00	12.70	12.70
Venezuela	18.00	18.00	17.00	17.00	17.00	17.00	17.00	17.00	17.00	17.00	17.00

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